

EXAMINATION REPORT

OF

ENDURANCE SPECIALTY INSURANCE LTD.
U.S. REDUCED COLLATERAL REINSURANCE TRUST

AS OF

DECEMBER 31, 2021

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
ENDURANCE SPECIALTY INSURANCE LTD. U.S. REDUCED COLLATERAL
REINSURANCE TRUST
AS OF
DECEMBER 31, 2021

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Trinidad Navarro
Insurance Commissioner

Dated this 21th day of June, 2023

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May 17, 2023

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to prescribed provisions contained in Examination Certification No. 22.020, dated October 20, 2022, an examination has been made of the affairs and financial condition of

**ENDURANCE SPECIALTY INSURANCE LTD.
(U.S. REDUCED COLLATERAL REINSURANCE TRUST)**

hereinafter referred to as the Trust. The Trust was formed under the laws of Delaware, by Endurance Specialty Insurance Ltd. (ESIL), an alien insurer domiciled in Bermuda, which is a certified reinsurer in Delaware under 18 *Del. C.* §911 and 18 *Del. Admin. Code* §1003. The Trust has no National Association of Insurance Commissioners (NAIC) statutory statement filing requirements. The Trust files a financial statement regarding ESIL's Covered U.S. Liabilities (as defined in the Trust) and related Trust assets. The administrative offices of the Trust are located at 4 Manhattanville Road, Purchase, New York.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Trust. This is the second examination of the Trust which was formed on

August 25, 2015, with the Department approval dated that same date. The previous regulatory examination of the Trust covered the period from August 25, 2015 through December 31, 2016. This examination covers the five-year period from January 1, 2017 through December 31, 2021, and encompasses a general review of transactions, policies and practices, as well as management and relevant corporate matters, with a determination of the Trust financial condition at December 31, 2021. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Trust was performed as part of the multi-state coordinated examination of Sompo U.S. Group (Sompo Group) of companies as of December 31, 2021. The Department was the lead state for the Sompo Group examination. The examination was conducted concurrently with that of its affiliates:

<u>Name</u>	<u>Domicile</u>
Endurance American Insurance Company (EAIC)	DE
Endurance Risk Solutions Assurance Co. (ERSAC)	DE
Endurance American Specialty Insurance Company (EASIC)	DE
Endurance Specialty Insurance Ltd. U.S. Reinsurance Trust (ESIL-MBT)	DE
Sompo Fire & Marine Insurance Company (SAFM)	NY
Sompo America Insurance Company (SAIC)	NY
Bond Safeguard Insurance Company (BSIC)	SD
American Agri-Business Insurance Company (AA-BIC)	TX
Lexon Insurance Company (LIC)	TX

To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook), generally accepted statutory insurance examination standards and prescribed standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the

Trust and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Trust were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Prescribed and Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Trust's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the Trust and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Trust.

During the course of this examination, consideration was given to work performed by the external accounting firm, Ernst and Young LLC, (E&Y). Certain auditor work papers of the 2021 E&Y audit of the Trust have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

TRUST HISTORY

ESIL is a wholly owned subsidiary of Sompo International Holdings Ltd. (SIHL), the ultimate parent of the Sompo Group. ESIL became part of Sompo Holdings, Inc. (Sompo Holdings), an insurance holding company system, on March 28, 2017. Control was acquired through the acquisition of 100% of the outstanding ordinary shares of Endurance Specialty Holdings Ltd. (ESHL) by Sompo Holdings.

Effective August 25, 2015, ESIL requested and received approval for the Department to serve as its domiciliary regulator on the U.S. Reduced Collateral Deed of Trust Agreement established pursuant to 18 *Del. C.*, §911(4), §911(5) and 18 *Del. Admin. Code* § 1003 (7).

ESIL-RCT MANAGEMENT AND CONTROL

Directors

Per the 2021 filed Annual Statement for the Trust, the reported Directors or Trustees as of December 31, 2021, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Christopher Brian Gallagher	CEO, Commercial P&C, SIHL Bermuda
Michael James McGuire	CFO, SIHL Bermuda
James Andrew Shea	CEO, SIHL, Bermuda

Officers

Per the 2021 filed Annual Statement for the Trust, the listed Officers and respective titles were as follows:

<u>Name</u>	<u>Title</u>
Christopher Brian Gallagher	CEO
Michael James McGuire	CFO
Yohei Namiki	Secretary

Insurance Holding Company System

ESIL is a member of an insurance holding company system as it is defined under 18 *Del. C.* § 5001 (7) of the Delaware Insurance Code.

The ultimate controlling person was ESHL, a Bermuda corporation, which is primarily engaged through its subsidiaries in the business of property and casualty insurance and reinsurance. Effective March 28, 2017, control was acquired through the acquisition of 100% of the outstanding ordinary shares of ESHL by Sompo Holdings, a Japanese domestic company.

An abbreviated organizational chart of Sompo Holdings as of December 31, 2021, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

Sompo Holdings, Inc. (Japan)
 Sompo Japan Insurance Inc. (Japan)
 Sompo International Holdings Ltd. (Bermuda)*
 Endurance Specialty Insurance Ltd. (Bermuda)
 (U.S. Reinsurance Trust)**
 (U.S. Reduced Collateral Reinsurance Trust)**
 Endurance U.S. Holdings Corp. (DE)
 AgriSompo North America (TX)
 American Agri-Business Insurance Company (TX)
 Endurance Assurance Corporation (DE)
 Sompo America Insurance Company (NY)
 Sompo America Fire & Marine Insurance Company (NY)
 Endurance Risk Solutions Assurance Co. (DE)
 Endurance American Insurance Company (DE)
 Endurance American Specialty Insurance Company (DE)
 Lexon Insurance Company (TX)
 Bond Safeguard Insurance Company (SD)

* Effective September 2017, ESHL transferred substantially all of its assets (including the U.S. Reinsurance Trust and the U.S. Reduced Collateral Reinsurance Trust) and liabilities to its affiliate, SIHL. Subsequently, ESHL was liquidated.

** The U.S. Reinsurance Trust and the U.S. Reduced Collateral Reinsurance Trust are wholly owned trust accounts of ESIL. They are not entities or “subsidiaries” as that term is commonly understood in the context of an insurance holding company system.

TERRITORY AND PLAN OF OPERATION

Pursuant to 18 *Del. C.* §911(4), the Department shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer which, as of any date on which statutory financial

statement credit for reinsurance is claimed, and thereafter for so long as credit for reinsurance is claimed, maintains a trust fund in an amount prescribed by Code in a qualified U.S. financial institution (as defined in 18 *Del. C.* §913(b)), for the payment of the valid claims of its U.S. domiciled ceding insurers, their assigns and successors in interest.

U.S. insurers collateralized by the Trust as of December 31, 2021, were domiciled in the following states:

States Accepting Reduced Collateral Trusts

1 Alabama	20 Missouri
2 Arizona	21 Minnesota
3 Arkansas	22 Nebraska
4 California	23 Nevada
5 Colorado	24 New Hampshire
6 Connecticut	25 New Jersey
7 Delaware	26 North Carolina
8 Florida	27 North Dakota
9 Georgia	28 Ohio
10 Hawaii	29 Oklahoma
11 Idaho	30 Pennsylvania
12 Illinois	31 Rhode Island
13 Indiana	32 South Carolina
14 Iowa	33 South Dakota
14 Louisiana	34 Texas
15 Maine	35 Utah
16 Maryland	36 Vermont
17 Massachusetts	37 Virginia
18 Michigan	38 Wisconsin
19 Mississippi	39 Wyoming

TRUST AGREEMENT

Effective August 31, 2015, and last amended July 1, 2016, ESIL and Bank of New York Mellon (BNY) entered into a multi-beneficiary Reduced Collateral Deed of Trust Agreement (Trust Agreement) on funds held in the United States.

ESIL established the Trust in the U.S. to provide security for certain ceding insurers so that credit may be allowed for the reinsurance ceded to ESIL and to qualify ESIL a certified reinsurer, as applicable where permitted under the laws of the various jurisdictions in the U.S.

The Trust was established with a minimum amount of \$10 million, with at least \$10 million on an ongoing basis in cash, certificates of deposit issued by a Qualified United States Financial Institution and the types of investments set forth in Paragraph 1 of Appendix A of the Trust Agreement. The Trust is required to maintain, by its terms, sufficient assets to support its Covered U.S. Liabilities (as defined in the Trust Agreement) and a minimum surplus of \$10 million. As of December 31, 2021, assets in the Trust were \$146.3 million.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Trust with the Department are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2021
- Statement of Income for the year ended December 31, 2021
- Reconciliation of Capital and Surplus from December 31, 2016 to December 31, 2021

Statement of Assets and Liabilities
As of December 31, 2021

	Assets	Non admitted Assets	Net Admitted Assets	Note
Bonds	\$ 144,059,206	\$ 0	\$ 144,059,206	1
Cash	1,597,159		1,597,159	
Short-term Investments	-		-	
Subtotals, cash and invested assets	\$ 145,656,365	\$ 0	\$ 145,656,365	
Investment income due and accrued	405,932		405,932	
Funds held by or deposited with reinsured companies	262,613		262,613	
Totals	\$ 146,324,910	\$ 0	\$ 146,324,910	
Losses			\$ 238,108,820	
Loss adjustment expenses			(324,299)	
Unearned premiums			111,715,024	2
Premium receivable - claim UPR offset			(127,518,964)	2
Collateral reduction			(177,282,622)	3
Total liabilities			\$ 44,697,959	
Special surplus funds			\$ 10,000,000	
Unassigned funds (surplus)			91,626,951	
Surplus as regards policyholders			\$ 101,626,951	
Totals			\$ 146,324,910	

Statement of Income
For the Year Ended December 31, 2021

Premiums earned	<u>\$ 292,514,478</u>
Losses incurred	\$ 223,848,921
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	<u>44,626,747</u>
Total underwriting deductions	<u>\$ 268,475,668</u>
Net underwriting gain (loss)	<u>\$ 24,038,810</u>
Net investment income earned	2,828,143
Net realized capital gains or (losses)	<u>652,120</u>
Net investment gain (loss)	<u>\$ 3,480,263</u>
Net income before dividends to policyholders	27,519,073
Dividends to policyholders	<u>0</u>
Net income, after dividends to policyholders	\$ 27,519,073
Federal and foreign income taxes incurred	<u>0</u>
Net income	<u>\$ 27,519,073</u>
Surplus for U.S Reduced Collateral Trust, as of December 31, 2020	<u>\$ 106,886,102</u>
Net income (losses)	27,519,073
Change in net unrealized capital gains (losses)	(5,266,065)
Increase in liability funded with existing surplus	<u>(27,512,159)</u>
Net change in capital and surplus for the year	<u>\$ (5,259,151)</u>
Surplus for U.S. Reduced Collateral Trust, as of December 31, 2021	<u>\$ 101,626,951</u>

Reconciliation of Capital and Surplus
For the Period
January 1, 2017 to December 31, 2021

	Aggregate Write ins for speacial surplus	Gross Paid-in and Contributed Surplus	Unassigned Surplus		Total
12/31/2016	\$ 10,000,000	\$ -	\$ 45,606,848		\$ 55,606,848
12/31/2017			(143,031,911)	(1)	(143,031,911)
12/31/2017			(941,769)	(2)	(941,769)
12/31/2017		158,824,703		(3)	158,824,703
12/31/2018			(189,162,461)	(1)	(189,162,461)
12/31/2018			(863,476)	(2)	(863,476)
12/31/2018		196,254,031		(3)	196,254,031
12/31/2019			178,478,851	(1)	178,478,851
12/31/2019			4,735,633	(2)	4,735,633
12/31/2019			(142,015,359)	(4)	(142,015,359)
12/31/2020			48,746,742	(1)	48,746,742
12/31/2020			4,511,705	(2)	4,511,705
12/31/2020			(64,257,435)	(4)	(64,257,435)
12/31/2021			27,519,073	(1)	27,519,073
12/31/2021			(5,266,065)	(2)	(5,266,065)
12/31/2021			(27,512,159)	(4)	(27,512,159)
Total	\$ 10,000,000	\$ 355,078,734	\$ (263,451,783)		\$ 101,626,951

(1) Represents net income

(2) Change in unrealized capital gains (losses), Change in net unrealized foreign exchange capital gain, Change in net deferred income tax, Change in nonadmitted assets, Change in provision for reinsurance

(3) Paid in Capital from ESIL

(4) Increase in liability Funded with existing surplus

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Schedule D – Bonds	\$ 144,059,206
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Per the Trust Agreement, assets (including bonds) shall be valued according to their fair market value. Yearly, BNY (as Trustee) confirms the investments to the Department. Per Article 2.13 of the Trust Agreement, “No later than February 28th of each year the Trustee shall furnish a written report to the Domiciliary Commissioner and Non-Domiciliary Commissioners including the balance, to include the fair market value, of the Trust and the assets held in the Trust Fund at the preceding year-end.” Per Article 2.2 of the Trust Agreement, the Trust was initially funded with Acceptable Assets with the fair market value of not less than an amount equal to the U.S. liabilities, the first \$10,000,000 of which shall, on an ongoing basis, be in cash, certificates of deposit issued by a qualified United States Financial Institution and the types of investments set forth in Paragraph 1 of Appendix A of the Trust Agreement. The Trust acceptable cash assets include \$30.1 million in U.S. Treasury notes and therefore met the Trust’s minimum cash requirements.

Note 2:

Unearned Premiums	\$ 111,715,024
Premium receivable – URP offset	\$ (127,518,964)

The Trust reported that unearned premium reserves on reinsurance assumed was all from non-affiliates. Under terms of the Trust Agreement, premium receivables are not recorded as assets of the Trust because the premium is due and collectable by ESIL, not by the Trust. Unearned

premium is recorded as a liability because pursuant to the terms of the Trust a ceding company could make a Claim against the Trust for a return of unearned premium.

Note 3:

Collateral reduction \$ (177,282,622)

In accordance with regulatory requirements, the Trust is funded at reduced collateral rates of 20% and 50% on a prospective basis. The reduction at December 31, 2021 was \$177,282,623.

Collateral Reduction Amount:	
Losses Outstanding	\$ 237,784,521
Unearned Premium Reserve	111,715,024
Premium Receivable Offset to Unearned Premium Reserve	(127,518,964)
Liabilities @ 100%	<u>\$ 221,980,581</u>
Allowed Reduction at 80%	\$ 176,779,541
Allowed Reduction at 50%	503,082
Total Allowed Reduction	<u><u>\$ 177,282,623</u></u>

SUBSEQUENT EVENTS

There were no subsequent events noted for the Trust.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

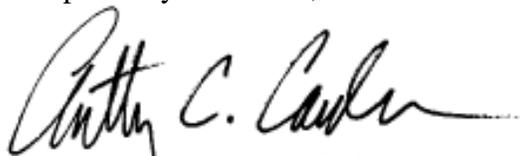
The assistance and cooperation of the Trust's outside audit firm, E&Y, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in black ink that reads "Greg Taylor". The signature is written in a cursive style with a horizontal line underneath it.

Greg Taylor, CFE
Examiner In-Charge
State of Delaware

Respectfully submitted,

A handwritten signature in black ink that reads "Anthony C. Cardone". The signature is written in a cursive style with a horizontal line underneath it.

Anthony Cardone, CFE, CPA
Supervising Examiner
State of Delaware

I, Greg Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Certification No. 22.020.



Greg Taylor, CFE